Real Property Assessment and Taxation in the Republic of Moldova

BY OLGA BUZU, PH.D.; WILLIAM J. MCCLUSKEY, PH.D.; AND RIEL C.D. FRANZSEN, PH.D.

Many of the countries in Central and South East Europe that were part of the former Soviet Bloc still retain area-based property tax systems. This article describes the successful property tax reform implemented in Moldova that replaced the existing area/inventory-based property tax system with an ad valorem based tax. The process of reform involved creation of a legal cadastre to identify all real property and owners, the adoption of mass appraisal techniques, and passage of underpinning legislation. To some extent, the success of the reform can be measured against taxpayer acceptance of the new system and the high level of payment compliance.

Background

The case for the property tax as a significant revenue generator has been well made by many eminent scholars in public finance. It nonetheless remains a tax that is underutilised in many transition countries (Bahl 1998; Bird and Slack 2004; McCluskey and Plimmer 2007). Taxes on land and buildings were introduced or re-introduced within the Central and Eastern European (CEE) as well as South East European (SEE) countries shortly after their various declarations of "independence" (Kelly 1994). For example, Poland introduced taxes on agricultural and forestry land and urban land and structures in 1985, whilst for the majority of the other countries, these taxes were not implemented until the early or mid-1990s (Almy 2001). However, more recently, Bird and Slack (2008) have found many of the transition countries have been revisiting their property taxes with a view to reform.

Historically, local governments in these countries tended to levy communal taxes based on property size (rather than value) and on the gross sales revenue of and/or employment in local businesses. The emergence of property markets offered opportunities to shift to a more realistic and substantial basis for the taxa-

Olga Buzu, Ph.D., *heads the Real Property Valuation Department, Agency for Land Relations and Cadastre in the Republic of Moldova.*

William J. McCluskey, Ph.D., *is on faculty at the Built Environment Research Institute, University of Ulster, Northern Ireland, United Kingdom.*

Riel C.D. Franzsen, Ph.D., *is director of the African Tax Institute, University of Pretoria, South Africa.*

tion of property—that is, property value, albeit with all the attendant problems of valuation and revaluation (Malme and Youngman 2001; McCluskey and Plimmer 2007).

Privatisation programmes have largely been completed within all of the countries, hence creating an enhanced tax base upon which the property tax can be levied (Malme and Youngman 2001). Most of the CEE and SEE countries have adopted special laws to reestablish the property rights that were expropriated during the Soviet era. This process of restitution began in the early 1990s and provided citizens and their descendants with the opportunity to reestablish their proprietary rights in property (Sulija and Sulija 2005). This restitution process, along with the privatisation of state-owned enterprises, to a large extent created the environment for the beginnings of the real estate market. These programmes were generally accompanied by the creation of new legal and fiscal cadastres, which effectively created the inventory for a real property tax. Legal ownership was established through title registration, which involved identifying parcels and property boundaries and the legal user or owner of each property.

Having secure, defendable, and transparent property rights backed by the force of law creates the opportunity for trading in real estate. The necessary processes and procedures, however, inevitably take time to develop and mature. Establishing a proper value-based property tax therefore is dependent upon these and other systems, such as a well-functioning banking and finance system and a reliable legal system as well as the availability of qualified valuers/appraisers. This, however, has not prevented many of the countries in these regions from developing a property tax based on one of two main approaches: area (land and buildings) or normative/official/cadastral/inventory value (Yuan, Connolly, and Bell 2008). Many transition countries inherited features from the Soviet property taxation system in which land and buildings were identified and appraised for taxation purposes as separate taxable objects. Taxation of land, as a general rule, was based on area whilst buildings were appraised by reference to some subjective opinion of value (e.g., some measure of depreciated cost).

Real property taxes are often cited as "good" candidates for independent subnational administration; in fact, the property tax is considered as almost the "perfect" local tax. It offers a predictable and durable revenue source for local budgets, fosters local autonomy, and provides a fiscal mechanism for decentralisation (Bird and Bahl 2008). Indeed, few fiscally significant taxes are more well suited to local administration than the property tax (Bird and Slack 2004; Mikesell 2003). The immovability of the tax base makes it clear which government is entitled to the tax revenue and makes it difficult for taxpayers to avoid. The tax captures for local government some of the increases in the value of land that are partially created by public expenditures. As McCluskey (1999) points out, real property is visible, immobile, and a clear indicator of one form of wealth. The property tax is especially attractive when compared with other potential sources of local tax revenue (Bird and Bahl 2008). If well administered, it can represent a nondistortionary and highly efficient fiscal tool.

Market-based ad valorem property tax systems are generally thought to score best on fairness and equity because property values tend to reflect ability-to-pay considerations better than an area-based property tax. Brzeski and Frenzen (1999) take the view that the simplicity of the area-based option makes it subject to generalisation over broad geographical areas resulting in a regressive tax. An area-based tax is not related to ability to pay as the same burden falls on the same-sized land in the same or prescribed geographical location. Similarly, Bird and Slack (2004) argue that area-based